Audit's® MARKET ANALYSIS OF SECURITIES OF REITS AND REAL ESTATE COMPANIES

Realty Stock Review

May 8, 1987 (Priced May 5)

VOL. XVIII, NO. 9

MARKET STRATEGY: TAX-ADVANTAGED PAYOUTS REMAIN OBTAINABLE IN REALTY STOCKS

In recent weeks we've been telling a growing number of inquirers that, yes, it is still possible to obtain tax-advantaged dividends from realty stocks.

Logically, the 1986 Tax Reform Act's dramatic reduction in personal income rates should have reduced interest in tax status of dividends. It seems, however, that the Act focused more attention on the tax status of dividends because inquiries are up.

For years a few REITs paid dividends that were partly taxfree return of capital, largely because of differences between book and tax depreciation. And for years the stock market paid very little, if any, premium in stock prices for these tax-advantaged dividends. This wasn't unusual because the lower yield on tax-exempt municipal bonds also narrowed compared to taxable bonds.

In late 1985 several REITs began financing their properties with zero coupon bonds, so that amortization of the original issue discount (or OID) could shelter distributions. OID escaped 1986 tax reform unscathed. OID payout is tricky because it lets you receive now part of underlying real estate values; if properties don't appreciate as expected, you could be in trouble when the zeros come due.

The flood of 1986 annual reports makes clear all types of tax shelter are becoming more prevalent for REITs, investment builders and some MLPs.

We tally below the 1986 dividends paid by some realty stocks and the amount and percentage which constituted tax-free return of capital (used to reduce a shareholder's basis in the stock). Since capital gains distributions will be taxed at the ordinary income rate in 1987, we've ignored this type of income. Here's the list, with the caveat that the 1986 tax-advantaged portion may not remain the same in 1987:

Paid by	Paid 1986	Return of Capital Amount	Return of Capital %
EQK Realty Inv..	$1.66a	$1.29aZ	77.7%
Federal Rlty....	1.05	0.23	21.9
ICM Property In.	1.36	0.38	27.9
Intl. Income Pr.	1.00	0.80	80.0
Koger Company...	2.40	2.40	100.0
Prop. Trust Am..	1.20b	0.42	35.0
Prudential Rl...	0.68	0.23Z	33.8
Rock. Ctr. Prop.	1.76	0.50Z	28.4
Trammel Cr. RE..	1.182	0.74Z	62.6
Utd. Dominion...	0.96	0.30	31.3
USP REIT........	1.75	0.147	8.4
Western Inv. RE.	1.09	0.058	5.3

a-Est. for 1987. b-Payout reduced to $0.80 for '87. Z-Discount on zero bond.

We reviewed ICM, Rockefeller and Prudential Apr. 24. Others are inside.

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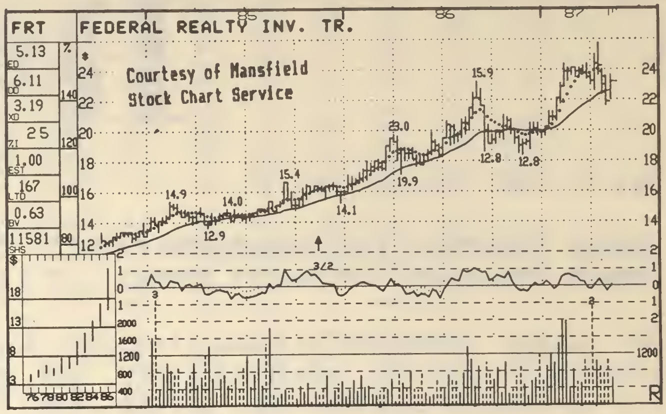
RANKING REVIEWS: MAJOR REITS, MOST WITH PARTIAL TAX-ADVANTAGED PAYOUTS, REVIEWED

Federal Realty Investment Trust ($23.88--NYSE) keeps A Rank in our annual review. FRT is a Maryland based REIT specializing in renovating older strip and mall shopping centers.

EPS/Dividends - A: Operating income in 1986 was 65¢ sh., down 13%; FRT also reported 61¢ property sale gains, up from 12¢ in 1985. Operating net cash flow (CFS) of $1.17/sh. rose 1.7%, well below FRT's 10.3% annual growth in CFS over the past five years. (We add capital gains to operating CFS in our statistical table.) FRT increased its dividend 4% during 1986 to $1.08 annual rate, or 90% of available cash; payouts rose at 11.5% the past five years. About 22% was taxfree return of capital, highest percentage in years for FRT.

Operations: Using proceeds of a $50 mil. senior note offering in April 1986, FRT bought four new centers in 1986 to add 1.2 mil. sq. ft. to holdings and bring total holdings to 6.8 mil. SF in 31 centers. One apartment, near Washington was sold (at 61¢ sh. gain) via taxfree exchange for 240,000 SF Williamsburg, (Va.) shopping center. FRT also bought 430,000 SF Laurel Centre Open-Air Mall for $29.7 mil. including 500,000 shs. valued at $10 mil. ($68.60/SF); 152,000 SF Eastgate Center in Chapel Hill, N.C. for $7.3 mil. ($48/SF); and 402,000 SF Fashion Square/Northeast Plaza, Atlanta for $33 mil. ($82/SF). In April FRT completed extensive $31 mil. renovations of Willow Lawn in Richmond, Va., converting this open mall into a 570,000 SF enclosed mall and probably added $2/sh. to asset value. The $3 mil. renovation of 242,000 SF Willow Grove (Pa.) center outside Philadelphia will be done late in 1987, with cash flow benefits coming in 1988. Construction disruptions and vacancies during re-leasing were major reasons for slow 1986 CFS gains.

Financial Measures - A: Debt of $203.2 mil. at Dec. 31 was 2.3 times $88.8 mil. equity at cost and 0.7 times stock market value. Debt is 56% mortgages and capital leases; 20% in 8.75% debentures convertible at $16 into 2.5 mil. shares; and 25% in 8.65% senior



notes. We estimate equity at market at about $26-$28/sh.; cost basis is $9.53 including $2.42 accumulated depreciation. Operating CFS equals 12.3% return on adjusted book value. FRT has just placed with foreign investors $100 mil. of 5.25% debentures convertible into 3.27 mil. shs. at $30.63/sh. Liquidity is excellent and long-term fixed rate debt matches assets.

Exposure - A: FRT's strategy of focusing upon opportunistic purchases of older strip centers with major leases about to expire has given it excellent long-term results. Competition is heating up in the field but FRT's leasing strength gives it an edge. With the convertible offering, FRT now has ample funds for several years of growth, so gains from renovations won't be diluted.

EQK Realty Investors I ($14.25--NYSE) is selling near its 52-week low and with an 11.7% yield on the $1.66 annual dividend, investors seem to be expecting a dividend cut although management expects to continue this rate thru 1987. We see fear of a major cut as overdone. We are Ranking shares at B initially.

EPS/Dividends - B: EKR earned 43¢ sh. in 1986, first full year, under general accounting principles (GAP); net cash flow was $1.55/sh., including noncash amortization of debt discounts. EKR paid $1.55 div.; the $1.66 annual rate was set a year ago after EKR retired 2.47 mil. shs. with proceeds of a zero coupon note. The adviser has subordinated its management fee to payment of the current distribution.

Assets and Operations: Current operations and expectations at EKR's three

major properties:

(1) Peachtree-Dunwoody Pavilion, 673,000 SF complex of seven multi-tenanted offices on Atlanta's north side just inside the perimeter highway, experienced sharp competition in 1986 and was 92% occupied at year-end. Net operating income of $5.6 mil. (37.5% of the total) fell behind budget by $500,000 ($6.6¢ sh.) in 1986 and EKR hopes to improve CFS by 4¢ in 1987. EKR gave firm and conditional options to tenants on four buildings with 345,000 SF (51% of space) for $52.15 mil. sale price, or its estimated 1991 value.

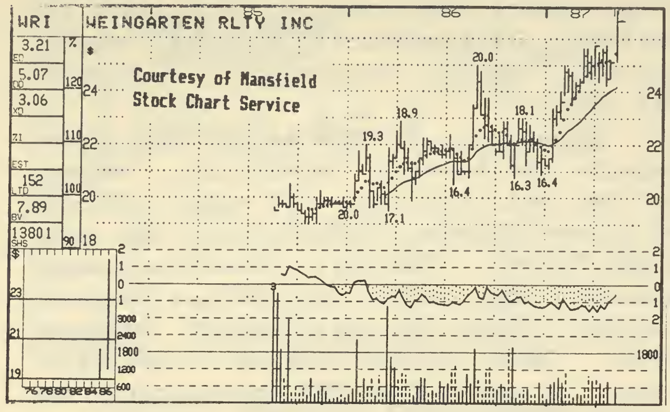
(2) Castleton Commercial Office Park, 46-building complex on 128 acres with 942,000 SF office and 251,000 SF warehouse space in Indianapolis, also hit stiff competition and was 87% leased at year-end. Castleton's $5.5 mil. net operating income (37% of total) fell $400,000 (5¢) behind target, mainly because EKR sought a suitable tenant for a major space in the park's most prominent building. Leasing is now stronger and occupancy should improve in 1987 but cash flow is expected to be about level.

(3) Harrisburg East Mall, two-level enclosed regional mall with 318,000 SF leasable mall space, is well leased and net operating income of $3.8 mil. (25.5% of the total) fell $100,000 below budget, mainly because retail sales rose only 5%. 1987 should be up a bit.

Financial Measures - B: Net debt of $62.9 mil. is 0.57 times $110.9 mil. net equity, equal to $15.65/sh. including depreciation. Debt includes $12.2 mil. mortgage on Harrisburg East net of discount; $50.2 mil. zero note due 1992 net of $44.5 mil. unamortized discount; and $500,000 bank loan to fund improvements.

Exposure - B: EKR's three major properties seem to have weathered severe competition in 1986 and should do better in 1987. Dividend cuts seem less likely now. Shs. are an income buy.

Weingarten Realty Inc. ($27.38--NYSE) maintains B Rank. WRI is one of the few REITs to keep making new highs in recent trading, reflecting our belief that it is the Houston/Oil Patch recovery play for now. Established 39 years ago, this Houston-based shopping center developer converted to REIT format in



1985 by selling 3.75 mil. sh. at $19.50.

EPS/Dividends - B. WRI earned $1.27 sh. under GAP accounting, up 11%. Net cash flow of $1.93/sh. rose 6%; CFS has risen at 12.3% annually the past three years. WRI paid $1.56 in 1986 (an 81% payout ratio) and current distributions are $1.60 annual rate, up 2.6% over last year. Payout is 99.6% ordinary income.

Assets and Operations: WRI builds neighborhood and community shopping centers, mainly in Houston, and owns 100 centers with 7.3 mil. sq. ft. (94% occupied, up from 92% in 1985). It also owns 1.4 mil. SF industrial, plus three apartments, one office, and 32 unimproved parcels with 8.6 mil. SF (197 acres). Properties are located 70% Houston and Harris County; 14% other Texas; 10.5% La.; 4% Ark.; rest Maine and Tenn.

WRI does not begin building a center until it is 50% preleased, usually to a supermarket anchor. In 1986 WRI added 175,000 SF by building two new centers: Randall's/Cypress Station with 113,000 SF in north Houston; and Fondren/West Airport, 62,000 SF in southwest Houston. Cost of $12 mil. is $68.50/SF. WRI plans two new centers and two expansions for 1987.

In addition, WRI is taking advantage of depressed Houston prices to make selective acquisitions: in 1986 it bought 319,000 net SF, all in Houston: a 50% joint venture interest in three centers with 112,000 SF; a 201,000 SF community center in Houston; and a 52,000 SF office/service facility. Total acquisition cost of $21.1 mil. equalled $66 per net SF.

Financial measures - B. Debt of $157 mil. at year-end is 1.5 times $105 mil. equity at cost. Debt is 49% revol-

ving credit; 38% permanent mortgages; 6% interim; 7% industrial revenue bonds. Equity plus depreciation equals $12.86/sh.

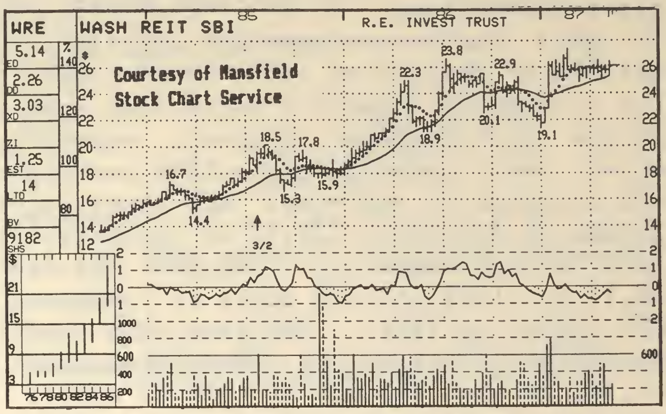
Exposure - B. WRI has strong development and leasing capability, buoyed by long relationships with major tenants such as Safeway, Eckerd Drugs and Walgreen Drugs. Safeway, recently taken private, has sold its Dallas units, raising fears it may depart Houston also. We'd regard this as a positive since it would give WRI opportunity to upgrade tenancy.

Washington REIT ($26.63--ASE) keeps A Rank although its remarkable long-term growth pattern stalled a bit.

EPS/Dividends - A: WRE possesses one of real estate's remarkable growth records that has seen EPS and dividends grow by 12.0% and 13.8% annually over the past decade. In 1986 WRE earned $1.12/sh. from operations under general accounting principles, even with 1985. Net operating cash flow from properties after overhead and debt service of $1.28/sh. rose 4%. Rents rose 12% but expenses were up 14%, holding operating income to a 6% gain. WRE had no capital gains in 1986. Dividends paid rose 9% to $1.28 and included 21¢ (or 16%) capital gains, vs. 16¢ in 1985. Current annual rate is $1.28, unchanged.

Assets and Operations: Invested assets are all directly owned properties totaling $79.6 mil. at cost divided 40% in nine shopping centers with 800,000 gross sq. ft. at $36.16/SF; 30% in four office buildings with 559,000 SF at $38.10/SF; 22% in five apartment towers with 1,297 DU at $13,430/DU; and 17% in nine business centers with 534,500 SF at $224.50/SF. Shopping centers are about 99% occupied and 50,000 SF added to the Bradlee Center in Alexandria, Va. in 1985 added to rents. Apartments and business centers both run at about 5% vacancy reflecting turnover and shorter leases. Offices are about 10% vacant overall with 360,000 SF One Metro Square at a commuter station in suburban Rockville, Md. about 13% vacant now. Space at 112,000 SF 1901 Pennsylvania Ave. is now about 96% full at $23-$24/SF.

Financial Measures - A: Debt of $13.3 mil. (all mortgages) is 0.16 times



combined shareholders' equity of $64.6 mil. and accumulated depreciation of $17.1 mil. We treat WRE as a cash flow company with $81.6 mil. capital or $8.89/sh. WRE holds $13.9 mil. cash.

Exposure - A: WRE has stayed close to its Washington, D.C. base and all properties are in that area. It has focused on relatively small properties so that one property's success or failure won't have major adverse consequences. Most properties are middle market bread-and-butter types. Risk is limited by keeping leverage low.

International Income Property Inc. ($15.00--ASE) maintains A Rank despite a small drop in net cash flow for this equity owner of major mall centers.

EPS/Dividends - B: IIP lost 5¢ from operations in 1986, vs. 19¢ income in 1985 under general accounting principles. IIP also recorded a 5¢ charge for mortgage prepayment. Net operating cash flow computed by Audit was 68¢ before the mortgage charge, down 3%. Distributions of $1.00 rose 6% in 1986 and at 6.1% over five years. With operating cash flow covering only about 68% of distributions, the shortfall amounted to $3.4 mil.; payout was 80% taxfree.

Assets and operations: IIP positions itself to own the dynamic mall portions of major enclosed mall shopping centers, in which major anchor department stores generally own their own facilities and provide the retail "draw". In this way IIP seeks to profit from leases to mall tenants that are shorter and carry higher percentages of sales than normally made with anchors. IIP owns a net 2.27 mil. sq. ft. in five major centers, its space divided 1.94

mil. SF in mall stores (86% of space) and 322,000 SF leased to anchors, with J.C. Penney accounting for 65% of this. The five centers contain a total 4.57 mil. SF, and anchors own 50.4% (2.3 mil. SF). IIP's five centers and IIP's percentage of total space are:

Center	Total SF	IIP %
Oglethorpe, Savannah..	814 Th.	51.4%
Northgate, Chattanooga	805 "	45.0
#Landmark, Alexandria.	687 "	18.1
Meadows, Las Vegas....	893 "	35.3
Park City,Lancaster..	1,373 "	76.1

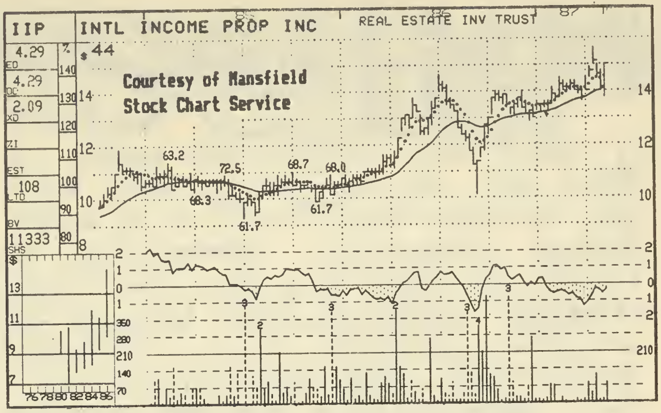
Open center, converting to mall.

Oglethorpe Mall is the only enclosed mall in its trade area; IIP has upgraded and expanded and average rents rose 8.8% to $11.26/SF in 1986. A larger speciality mall was opened at Northgate in late 1984 and total rents have risen 32% in three years; average rent rose 5% to $7.70/SF in 1986 and 16% of space is up for 1987 renewal. Total redevelopment of Landmark Center into a two-level mall and more than doubling IIP's space is expected to begin in 1987. At Park City, IIP paid $47.2 mil. (or $90/SF) to buy the 50% (522,500 SF) it did not own. Rents rose 12.8% to $7.22/SF average. Meadows in Las Vegas was acquired in Dec. 1985 for $60.5 mil. (or $191/SF for 316,000 net SF); average rents rose 4.6% in 1986 and about 39% of leases expire the next three years.

Financial Measures - A: Because IIP can only borrow with mortgages secured by properties, it borrowed $104 mil. to refinance Meadows and buy the Park City partner. As result IIP debt of $115 mil. at year-end is 1.61 times $71.5 mil. equity at cost but only 0.65 times equity of $177.1 mil. at current asset value. Landmark redevelopment is estimated to cost $75 mil. and IIP has obtained a $100 mil. secured construction loan commitment from an overseas bank.

Current Value: IIP estimates year-end current net asset value at $177.1 mil. or $15.62/sh., based on appraisals.

Exposure - B: Acquisition of the Las Vegas mall has increased leverage well above IIP's historic norms, and the ambitious Landmark Center reconstruction could also strain finances. IIP is positioned to benefit from retailing growth by smaller, mall tenants.



United Dominion Realty Trust ($18-1/4-- OTC), based in Richmond, Vir., keeps A Rank by carving out an important niche as a renovation and upgrading specialist in apartments. Prospects for higher mortgage rates may help in 1987 by keeping many apartment renters from becoming homebuyers.

EPS/Dividends - A: UDRT earned 25¢ from operations in 1986, down from 28¢ under GAP accounting. Operating net cash flow per share fell 6% to 91¢, largely because delays in renovating five apartments hurt renting. UDRT paid 96¢ dividend in 1986, up 2%, and in March increased payout 4% to $1.00 annually. About $1.05 cash flow is seen for 1987. Net cash flow and dividends have risen at 7.6% and 13.4% yearly the past five years.

Assets and Operations: UDRT now holds over $144.4 mil. properties at cost divided 71% apartments, 26% shopping centers, and 3% offices and other. UDRT specializes in buying apartments at low cost and owns 5,057 DU at average $20,250 cost, located in Vir., N.C. and S.C. Apartment occupancy averaged 91% during the Mar. 1987 qtr., level with last year. UDRT's low cost, vs. $40,000 DU avg. cost for new units, lets it rent for about $340/mon. avg. vs. $600 for new units. Total rents, mainly apartments, rose 18.5% in 1986 but operating costs rose 25%, resulting in 14.4% gain in operating income.

UDRT owns 14 shopping centers with 1.4 mil. rentable SF . Results in 1986 were hurt by vacancies at two centers, although a 40,000 SF vacancy in a Richmond center was filled in Mar. with excellent early business. UDRT also owns two industrial projects with

166,000 SF, about 10% vacant. Its only office exposure is two small projects with 85,000 SF (2% of assets).

Financial Measures- A: Total debt of $84.8 mil. is 1.5 times equity of $55.8 mil. at cost and includes $61.8 mil. mortgages and $23 mil. of 9% subordinated debentures (convertible at $15.55 per share) sold in a July 1985 offering. Leverage ratio falls to 0.8 on a fully converted basis. Shareholders' equity plus depreciation on a fully converted basis (a common measurement of what shareholders have invested in the REIT's properties) is $67.5 mil. or $11.36 per share. Most debt is fixed-rate and thus does not expose UDRT to interest rate swings.

Exposure - A: By staying in a carefully defined market niche and watching costs closely, UDRT is able to grow.

Property Trust of America ($9.38-NASDAQ), holds A Rank although 1986 was a down year, ending with a 33% dividend cut early this year. But the stock hasn't declined since the cut, meaning investors are looking for a turnaround. Based in El Paso, Tex. PTRAS is a small but growing REIT that owns a diversified portfolio of income properties in the Southwest and Mountain states.

EPS/Dividends - B: PTRAS' operating net income was 63¢ under GAP accounting, down 21%. Operating net cash flow of 93¢ fell 10%. We expect possibly some further modest weakening in 1987 to about 88¢ per share, with about 4% variance possible. In 1986 PTRAS sold idle land parcels and an older apartment/shopping center complex for 17¢ gains; some sale gains may be recorded in 1987. PTRAS cut payout for 1987 to 80¢ sh. and this should be covered from operating cash flow. At current prices the shares yield about 8.5%.

Properties: About 33% of PTRAS's estimated 88¢ per share net operating cash flow in 1987 is expected to come from retailing. PTRAS's major retail properties include ten shopping centers with 685,000 sq. ft. of retail space, with 69% in Denver or Colorado Springs and the remainder in El Paso. PTRAS paid $3.3 mil. for the 50,300 Barley Square center in El Paso during 1986. Occupancy is holding up fairly well.

Hotel and office holdings each generate about 13% of cash flow. One of PTRAS' most successful investments is its 50% partnership interest in the 338-room Holiday Inn on Fisherman's Wharf, San Francisco, giving PTRAS significant entree to this major tourist market. The hotel's cash flow fell in 1986 when guarantees expired but now has recovered. Apartments are expected to improve in 1987, although markets are competitive. PTRAS owns only one 67,500 sq. ft. office building, Crown Tower in San Antonio, and although exposure was small, a large tenant vacated to drop occupancy to 65%; negative cash flow is seen for 1987. A 40% interest in a second office building is doing better.

Financial Measures - A: PTRAS has excellent liquidity and low leverage. It has agreed to buy an Ontario, Cal. industrial building for $5.16 mil., lessening dependence on the Southwest. Leverage is low with about $13 mil. of debt being only 0.29 times $45 mil. shareholders' equity. Exposure - A: PTRAS' liquidity and conservative financing posture it ideally for an eventual Southwestern real estate turnaround.

COMPARATIVE REALTY STOCK GROUP AVERAGE 05/05/87

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANNUAL DIV	EARN ANN	LAST PRICE	-% CHANGE FROM APR 21	JAN 1	P/E RATIO	ANNUAL YIELD	% PR TO BK	RETURN ON BK	MARKET VAL(000)
1 PROPERTY REITS	50	4	54	6750	11.03	1.14	1.13	15.85	-0.4	2.9	14.0	7.2	43.7	10.3	6351.7
2 PROP & MTG COMB REITS	23	2	25	5607	12.76	1.37	0.98	13.97	-0.5	-1.4	14.3	9.8	9.5	7.7	2037.4
3 MORTGAGE REITS	17	1	18	5676	14.46	1.67	1.42	14.72	-1.3	-8.6	10.4	11.4	1.8	9.8	1661.4
4 PARTICIPATING MTG REITS	12	0	12	8303	11.99	1.11	1.03	11.29	-4.9	-10.0	11.0	9.8	-5.9	8.6	1353.3
5 MAJOR HOMEBUILDERS	9	4	13	18892	11.18	0.42	1.43	20.52	-0.9	18.8	14.3	2.0	83.5	12.8	4080.8
6 OTHER BLDRS/DEVELOPERS	7	27	34	6280	5.14	0.19	0.31	8.82	-3.9	16.6	28.7	2.2	71.4	6.0	2065.5
7 INCOME PROP BLDR/OWNR	21	11	32	6883	11.32	0.81	0.95	17.06	-1.7	3.7	17.9	4.7	50.7	8.4	3808.3
8 MORTGAGE BANKER/FINANCE	13	4	17	13299	9.95	0.85	1.09	15.21	-2.2	2.8	13.9	5.6	52.9	11.0	5254.3
9 DIVERSFIED RLTY&HOLDING	12	6	18	18083	15.08	0.35	1.11	18.54	-0.4	13.8	16.6	1.9	23.0	7.4	9944.6
10 RLTY SVCS/SYNDICATORS	1	5	6	8248	6.53	0.03	-0.33	8.81	0.0	13.1	0.0	0.3	35.1	-5.1	397.5
11 MANUFACTURED HOUSING	4	5	9	12718	6.59	0.16	0.33	10.36	-1.0	6.0	31.5	1.5	57.2	5.0	1252.3
L LIQUIDATING COMPANIES	0	1	1	5968	1.37	0.00	-1.27	1.63	-7.1	-38.1	NC	NC	18.6	NC	9.7
P PREFERRED STOCKS	1	0	1	1650	10.00	1.10	0.00	11.38	-6.2	-6.2	NC	NC	13.8	NC	18.8
OVERALL AVERAGE			240	8829	10.67	0.84	0.94	14.52	-1.3	4.5	15.5	5.8	36.1	7.9	38235.6
DOW JONES INDUSTRIALS							115.59	2338.07	0.0	23.3	20.2	2.9			
STANDARD & POOR'S 500							14.66	295.34	0.8	22.0	20.1	3.0			
DOW JONES UTILITIES							14.01	206.30	-1.4	0.1	14.7	7.7			